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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 8, 2008

The Honorable John Nelson, Chair
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair
Joint Legislative Audit Committee

Dear Representative Nelson and Senator Blendu:

Our Office has recently completed a 6-month followup of the Arizona Department of Racing and the Arizona Racing Commission regarding the implementation status of the 14 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in May 2007 (Auditor General Report No. 07-02). As the attached grid indicates:

- 2 have been implemented;
- 10 are in the process of being implemented; and
- 2 are not yet applicable

Our Office will continue to follow up at 6-month intervals with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Sjb
Attachment

cc: Geoffrey Gonsher, Director
Arizona Department of Racing

ARIZONA DEPARTMENT OF RACING AND SUNSET REVIEW OF ARIZONA RACING COMMISSION 6-Month Follow-Up Report To Auditor General Report No. 07-02

FINDING 1: Department should improve pari-mutuel oversight program

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. To improve tote testing, the Department should:		
a. Train its pari-mutuel auditors on general audit practices and how to conduct tote system testing under net pool pricing.	Implemented at 6 Months	
b. Identify and implement ways to reduce the reliance on manual calculations, such as using testing booklets or spreadsheets.	Implementation in Process	The Department has contacted racing jurisdictions that use testing booklets or spreadsheets to review materials for application in Arizona.
c. Complete the development of the pari-mutuel auditing policies and procedures manual and implement it. The Department should ensure that it contains specific guidance for tote testing under both standard and net pool pricing.	Implementation in Process	The Department completed an Interim Pari-Mutuel Audit and Review Manual in November 2007. It will be updated and expanded at a later time to include specific guidance for tote testing under standard pricing and net pool pricing. The Department reported that its auditors will periodically review and revise the manual to incorporate new techniques and practices as they are identified within the industry.

ARIZONA DEPARTMENT OF RACING AND SUNSET REVIEW OF ARIZONA RACING COMMISSION 6-Month Follow-Up Report To Auditor General Report No. 07-02

FINDING 1: Department should improve pari-mutuel oversight program (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
2. The Department should work with the Legislature to obtain statutory authority to license tote companies.	Implementation in Process	The Department has prepared a legislative proposal for consideration during the 2008 session.
3. If the Department obtains statutory authority to license tote companies, it then should:		
a. Modify its administrative rules to identify tote companies as a license category.	Not Yet Applicable	Implementation of this recommendation is contingent upon legislative action that gives the Department statutory authority to license tote companies. The Department reported that it will begin the rule making process if the legislation is approved.
b. Include in its administrative rules specific requirements associated with the tote company licensure as recommended in ARCI's proposed additions to its pari-mutuel wagering Model Rules.	Not Yet Applicable	Implementation of this recommendation is contingent upon legislative action that gives the Department statutory authority to license tote companies. The Department reported that it will begin the rule making process if the legislation is approved.

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FINDING 1: Department should improve pari-mutuel oversight program (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
c. Include in its administrative rules for tote company licensure a requirement for a Type II SAS 70 or similar review.	Implementation in Process	Implementation of this recommendation is contingent upon legislative action that gives the Department statutory authority to license tote companies. However, in the interim, the Department is requiring the firms that audit the commercial permittees' financial statements to complete an electronic data processing audit when it conducts the permittees' annual financial audit, and to submit both reports to the Department by April 30, 2008. The electronic data processing audit report will provide an auditor's opinion about the permittees' computer system security, including tote systems.

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FINDING 1: Department should improve pari-mutuel oversight program (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
4. To improve how it monitors tote system security, the Department should:		
a. Work toward incorporating other aspects of the proposed additions to the ARCI Model Rules, including those related to reviewing programming changes and access controls, into its administrative rules.	Implementation in Process	The Department has not determined whether it can rely on its current statutory authority to incorporate specific ARCI Model Rules into its administrative rules including any related to monitoring programming changes, access controls, and system security. However, with few exceptions, the complete implementation of this recommendation is contingent upon legislative action that gives the Department statutory authority to license tote companies because the vast majority of ARCI's Model Rules are directed specifically to tote companies rather than a licensed racetrack. In the interim, the Department is requiring firms that audit the commercial permittee's financial statements to also complete electronic data processing audits.

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FINDING 1: Department should improve pari-mutuel oversight program (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
b. Review ARCI's recommendations related to programming changes, access controls, system security, and other IT control areas, and generally become more familiar with standard IT audit practices.	Implementation in Process	Department officials reported that they have reviewed ARCI's recommended Model Rules, and that they will continue to encourage training and education for the Department's pari-mutuel auditors to gain additional knowledge about standard IT auditing practices. For example, in June 2007, the Department's auditors attended an ARCI training regarding pari-mutuel auditing trends and the Model Rules.
c. Incorporate these recommended practices into its pari-mutuel auditing work.	Implementation in Process	With few exceptions, the Department will not be able to fully incorporate ARCI's recommended practices into its pari-mutuel auditing work unless it obtains statutory authority to license tote companies as the vast majority of ARCI's Model Rules are directed to tote companies. In the interim, the Department is requiring firms that audit the commercial permittee's financial statements to also complete electronic data processing audits.

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FINDING 1: Department should improve pari-mutuel oversight program (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
5. To improve monitoring of wagering systems for potential anomalies, the Department should explore the feasibility of adopting automated systems. Specifically, the Department should explore the feasibility of implementing the ESI Integrity or RCI Integrity system in Arizona.	Implementation in Process	The Department has reviewed information related to the RCI integrity system, and has requested funding for implementing it.
6. The Department should explore expanding its scope of financial analyses of the monies wagered in Arizona to strengthen oversight of the distribution of handle to parties that are entitled to a portion of it.	Implementation in Process	In November and December 2007, the Department initiated audits at Tucson Greyhound Park and Phoenix Greyhound Park that reviewed wagering-generated monies and expenses. The audits included a review of contracts and expenses that affected wagering distributions, and a review of purse accounts. In addition, the Department reported that it will complete a review of purse accounts, bookkeeper's records, and other financial activities as permit applications are being reviewed.

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FINDING 2: Department should continue aligning animal drug-testing practices with national standards

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. The Department should continue to move forward to align its drug-testing practices with the Model Rules, and seek consensus with the industry in areas where there are concerns.	Implemented at 6 Months	
2. Once finalized, the Department should put its new equine drug testing policy and penalties into administrative rule instead of solely in department policy.	Implementation in Process	In August 2007, the Arizona Racing Commission endorsed an Equine Medication Model Rules Interim Policy effective October 1, 2007. The Interim Policy will be used until the Department's administrative rules can be formally adopted.